

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Salem Township</u>	County Washtenaw County
Audit Date March 31, 2005	Opinion Date September 7, 2005	Date Accountant Report Submitted To State: September 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1000 Oakbrook Drive	City Ann Arbor	State MI	ZIP 48104
Accountant Signature 			

**Salem Township
Washtenaw County, Michigan**

**Financial Report
with Supplemental Information
March 31, 2005**

Salem Township

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Independent Auditor's Report

To the Board of Trustees
Salem Township
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem Township, Washtenaw County, Michigan (the "Township") as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Salem Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem Township as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Salem Township

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salem Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 10, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Plante & Moran, PLLC

September 7, 2005

Salem Township

Management's Discussion and Analysis

Our discussion and analysis of Salem Township, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- The dispute between the Township and Gas Recovery Systems Inc. (GRS) was settled in the Township's favor.
- Total net assets related to the Township's governmental activities increased by approximately \$2.2 million.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of Salem Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Salem Township

Management's Discussion and Analysis (Continued)

Salem Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 5,290	\$ 3,164	\$ 678	\$ 628	\$ 5,968	\$ 3,792
Noncurrent assets	<u>2,095</u>	<u>2,094</u>	<u>3,928</u>	<u>4,112</u>	<u>6,023</u>	<u>6,206</u>
Total assets	7,385	5,258	4,606	4,740	11,991	9,998
Liabilities						
Current liabilities	16	67	178	99	194	166
Long-term liabilities	<u>-</u>	<u>-</u>	<u>2,190</u>	<u>2,510</u>	<u>2,190</u>	<u>2,510</u>
Total liabilities	<u>16</u>	<u>67</u>	<u>2,368</u>	<u>2,609</u>	<u>2,384</u>	<u>2,676</u>
Net Assets						
Invested in capital assets -						
Net of related debt	2,095	2,094	248	157	2,343	2,251
Restricted	11	-	-	-	11	-
Unrestricted	<u>5,263</u>	<u>3,097</u>	<u>1,990</u>	<u>1,974</u>	<u>7,253</u>	<u>5,071</u>
Total net assets	<u>\$ 7,369</u>	<u>\$ 5,191</u>	<u>\$ 2,238</u>	<u>\$ 2,131</u>	<u>\$ 9,607</u>	<u>\$ 7,322</u>

The Township's combined net assets increased 31.5 percent from a year ago, increasing from \$7.3 million to \$9.6 million. This was a result of the lawsuit settlement payment and the further reduction of long-term liabilities with regular payments to the bond program to pay for the sewer plant expansion. Our total liabilities decreased 11 percent over the past year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$2.166 million for the governmental activities. This represents an increase of 70 percent. The current level of unrestricted net assets for our governmental activities stands at \$5.263 million, which exceeds our current fiscal year level of expenditures by approximately 325 percent, providing three years of funding reserves availability.

Salem Township

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 145	\$ 184	\$ 102	\$ 89	\$ 247	\$ 273
Capital grants and contributions	27	-	136	65	163	65
General revenue:						
Landfill/host community fees	569	465	-	-	569	465
State-shared revenue	377	369	-	-	377	369
Unrestricted investment earnings	35	32	82	87	117	119
Franchise fees	38	43	-	-	38	43
Miscellaneous	17	26	-	-	17	26
Lawsuit settlement	2,102	-	-	-	2,102	-
Total revenue	3,310	1,119	320	241	3,630	1,360
Program Expenses						
General government	531	787	-	-	531	787
Public safety	356	289	-	-	356	289
Public works	44	46	-	-	44	46
Community and economic development	200	207	-	-	200	207
Recreation and culture	1	1	-	-	1	1
Water and sewer	-	-	213	225	213	225
Total program expenses	1,132	1,330	213	225	1,345	1,555
Change in Net Assets	\$ 2,178	\$ (211)	\$ 107	\$ 16	\$ 2,285	\$ (195)

Governmental Activities

The Township's total governmental revenues increased substantially due to the lawsuit settlement in favor of the Township resulting in a payment of \$2.1 million. Overall, even after factoring out the favorable effects of the lawsuit payment, the Township's financial revenue improved by almost \$90,000. This was due to monthly landfill gas payments following resolution of the lawsuit. This helped offset a decrease in charges for services that decreased \$49,000, which was a result of a decline in building activity within the Township.

Salem Township

Management's Discussion and Analysis (Continued)

State revenue sharing increased slightly, which was a pleasant surprise in spite of tight state budget constraints at the beginning of the year and initial forecasts indicating that we would see shortfalls in that category. With the national economy continuing to grow and unemployment levels starting to ebb lower as of late, state revenue sharing for next year should hold steady or increase slightly again.

The Township continued to hold the line on program expenses and reduced general government expenditures by approximately \$250,000 from the prior year.

Business-type Activities

Salem Township's business-type activities consist of the Sewer Fund. We provide sewage treatment through a Salem Township-owned and operated sewage treatment plant. Due to a 15 percent increase in charges for services and over a doubling of capital grants and contributions, the total revenue increased by a third this past fiscal year. Expenditures decreased slightly with a favorable change in net assets of \$107,000.

Salem Township's Funds

The Salem Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds are the General Fund and Sewer Fund. Additionally, the Township has an Agency Fund that handles escrow monies that are administered by the Building Department.

The General Fund pays for most of the Township's governmental services. A majority of the revenue funding comes from landfill/host community fees, gas royalty fees, and state revenue sharing. The most significant expenditures are for the fire department, police services contracted with Washtenaw County, and general government services operations.

General Fund Budgetary Highlights

Obviously, the foremost impact on our General Fund was the closure of the litigation in which the township was involved over the royalty fees from the gas recovery operation at the landfill. The court's ruling on the Township's behalf resulted in past payments since the inception of the litigation, attorney costs being reimbursed, plus interest monies being received totaling over \$2,000,000.

Over the course of the year, the Township board amended the budget to take into account the purchase of a new vehicle for the utilization of the fire chief. A budget of \$41,000 was allocated and the expense was held to under \$37,000.

Capital Asset and Debt Administration

The main assets owned by the Township are the wastewater treatment facility, vacant land parcels in the Township, the town hall building, and fire department with vehicles, equipment, etc.

Salem Township

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

With the resolution of the GRS litigation, the Township has been receiving the regular monthly royalty payments. This has increased our budget forecast and enabled us to factor in road improvements/maintenance of \$150,000 for fiscal year 2005-2006.

One issue that will not be resolved until next year is the contracting of police services with Washtenaw County. That expense based on current proposals would increase 20 percent over the next two years and then almost double to \$180,000 in 2008. The Township is currently considering different options to provide this police service through other avenues at a lower cost while still negotiating with the county to reach a more equitable cost structure.

Contacting Salem Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Salem Township

Statement of Net Assets March 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities (Sewer Fund)	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 1,713,700	\$ 721,544	\$ 2,435,244
Investments	3,306,532	-	3,306,532
Receivables - Net:			
Landfill	119,064	-	119,064
Customers	-	27,618	27,618
Special assessments	-	1,329,922	1,329,922
Other	58,732	-	58,732
Internal balances (Note 5)	70,989	(70,989)	-
Prepaid costs and other assets	21,074	-	21,074
Capital assets - Net (Note 4)	2,095,305	2,598,238	4,693,543
Total assets	7,385,396	4,606,333	11,991,729
Liabilities			
Accounts payable	14,467	168	14,635
Accrued and other liabilities	1,247	17,573	18,820
Noncurrent liabilities (Note 6):			
Due within one year	-	160,000	160,000
Due in more than one year	-	2,190,000	2,190,000
Total liabilities	15,714	2,367,741	2,383,455
Net Assets			
Invested in capital assets - Net of related debt	2,095,305	248,238	2,343,543
Restricted - Village Green	11,214	-	11,214
Unrestricted	5,263,163	1,990,354	7,253,517
Total net assets	<u>\$ 7,369,682</u>	<u>\$ 2,238,592</u>	<u>\$ 9,608,274</u>

Salem Township

	Program Revenues		
	Charges for	Operating	Capital Grants
Expenses	Services	Grants and	and
		Contributions	Contributions
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ 531,489	\$ 24,717	\$ -
Public safety	355,954	328	-
Public works	44,277	-	-
Community and economic development	199,818	119,522	-
Recreation and culture (Village Green)	1,456	-	27,364
Total governmental activities	1,132,994	144,567	27,364
Business-type activities - Sewer	212,622	102,306	135,500
Total primary government	<u>\$ 1,345,616</u>	<u>\$ 246,873</u>	<u>\$ 162,864</u>
General revenues:			
Landfill /Host community fees			
State-shared revenues			
Interest from customer assessments			
Unrestricted investment earnings			
Franchise fees			
Miscellaneous			
Special item - Lawsuit settlement			
Total general revenues and special item			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended March 31, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (506,772)	\$ -	\$ (506,772)
(355,626)	-	(355,626)
(44,277)	-	(44,277)
(80,296)	-	(80,296)
25,908	-	25,908
(961,063)	-	(961,063)
-	25,184	25,184
(961,063)	25,184	(935,879)
569,706	-	569,706
376,799	-	376,799
-	72,148	72,148
35,598	10,229	45,827
38,332	-	38,332
17,400	-	17,400
2,101,835	-	2,101,835
3,139,670	82,377	3,222,047
2,178,607	107,561	2,286,168
5,191,075	2,131,031	7,322,106
<u>\$ 7,369,682</u>	<u>\$ 2,238,592</u>	<u>\$ 9,608,274</u>

Salem Township

Governmental Fund General Fund Balance Sheet March 31, 2005

Assets

Cash and cash equivalents	\$ 1,713,700
Investments	3,306,532
Receivables - Net:	
Landfill	119,064
Other	58,732
Prepaid insurance	21,074
Due from other funds	70,989
	<hr/>
Total assets	<u>\$ 5,290,091</u>

Liabilities and Fund Balances

Liabilities

Accounts payable	\$ 14,467
Other liabilities	1,247
	<hr/>
Total liabilities	15,714

Fund Balance

Reserved:	
Prepaid expenditures	21,074
Village Green	11,214
Unreserved	5,242,089
	<hr/>

 Total fund balance 5,274,377

 Total liabilities and fund balances **\$ 5,290,091**

Fund Balance - Governmental Fund

Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and are not reported in the funds 2,095,305

 Net assets of governmental activities **\$ 7,369,682**

Salem Township

Governmental Fund General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended March 31, 2005

Revenue

Licenses and permits	\$ 110,364
State-shared revenues	376,799
Landfill/Host community fees:	
Host fees	417,936
Gas royalties	105,942
Compost host fees	<u>45,828</u>
Total landfill/host community fees	569,706
Local sources	23,472
Interest and rentals	35,598
Other	<u>77,627</u>
Total revenue	1,193,566

Expenditures - Categorized by budget - Current

General government	726,008
Public safety	310,009
Public works	44,277
Capital improvements	<u>37,779</u>
Total expenditures	<u>1,118,073</u>

Excess of Revenue Over Expenditures 75,493

Extraordinary Item - Lawsuit settlement 2,101,835

Net Change in Fund Balance 2,177,328

Fund Balance - Beginning of year 3,097,049

Fund Balance - End of year \$ 5,274,377

Salem Township

Governmental Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Fund to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - General Fund **\$ 2,177,328**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Depreciation	(51,751)
Capital outlay expenditures	<u>53,030</u>

Change in Net Assets of Governmental Activities **\$ 2,178,607**

Salem Township

Proprietary Fund Enterprise Fund - Sewer Fund Statement of Net Assets March 31, 2005

Assets

Current assets:

Cash and cash equivalents	\$ 721,544
Receivables - Net:	
Customers	27,618
Special assessments	<u>1,329,922</u>

Total current assets 2,079,084

Noncurrent assets - Capital assets 2,598,238

Total assets 4,677,322

Liabilities

Current liabilities:

Accounts payable	168
Accrued and other liabilities	17,573
Due to other funds	70,989
Current portion of long-term debt	<u>160,000</u>

Total current liabilities 248,730

Noncurrent liabilities - Long-term debt - Net of current portion 2,190,000

Total liabilities 2,438,730

Net Assets

Investment in capital assets - Net of related debt	248,238
Unrestricted	<u>1,990,354</u>

Total net assets \$ 2,238,592

Salem Township

Proprietary Fund Enterprise Fund - Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

Operating Revenue - Sewage disposal charges	\$ 102,306
Operating Expenses	
Cost of sewage treatment	27,665
Maintenance	60,980
Billing and administrative costs	733
Depreciation	<u>68,568</u>
Total operating expenses	<u>157,946</u>
Operating Loss	(55,640)
Nonoperating Revenue (Expenses)	
Tap fees	135,500
Interest income	82,377
Interest expense	<u>(54,676)</u>
Change in Net Assets	107,561
Net Assets - Beginning of year	<u>2,131,031</u>
Net Assets - End of year	<u><u>\$ 2,238,592</u></u>

Salem Township

Proprietary Fund Enterprise Fund - Sewer Fund Statement of Cash Flows Year Ended March 31, 2005

Cash Flows from Operating Activities

Receipts from customers	\$ 95,612
Payments to suppliers	<u>(89,210)</u>

Net cash provided by operating activities 6,402

Cash Flows from Noncapital Financing Activities - Repayments to other funds

(10,120)

Cash Flows from Capital and Related Financing Activities

Collection of customer assessments (principal and interest)	187,612
Collection of connection fees	135,500
Principal and interest paid on capital debt	<u>(215,426)</u>

Net cash provided by capital and related financing activities 107,686

Cash Flows from Investing Activities - Interest received on investments 10,229

Net Increase in Cash and Cash Equivalents 114,197

Cash and Cash Equivalents - Beginning of year 607,347

Cash and Cash Equivalents - End of year \$ 721,544

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (55,640)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	68,568
Changes in assets and liabilities:	
Receivables	(6,694)
Accounts payable	<u>168</u>

Net cash provided by operating activities \$ 6,402

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, or financing activities during the year ended March 31, 2005.

Salem Township

Fiduciary Funds Agency Funds Statement of Assets and Liabilities March 31, 2005

Assets - Cash and cash equivalents	<u><u>\$ 204,371</u></u>
Liabilities	
Due to other governmental units	\$ 25,404
Refundable deposits	<u>178,967</u>
 Total liabilities	 <u><u>\$ 204,371</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of Salem Township, Washtenaw County, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Salem Township, Washtenaw County, Michigan:

Reporting Entity

Salem Township, Washtenaw County, Michigan is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary fund:

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note 1 - Summary of Significant Accounting Policies (Continued)

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Sewer building and systems	40 years
Land improvements and building improvements	20 years
Fire equipment	8 to 20 years
Office equipment and furniture	5 to 10 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Salem Township

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Surplus at April 1, 2004	\$ 19,242
Current year building permit revenue	110,364
Related expenses:	
Direct costs	72,641
Estimated indirect costs	<u>68,437</u>
Current year expenditures in excess of revenue	<u>(30,714)</u>
Shortfall at March 31, 2005	<u><u>\$ (11,472)</u></u>

Salem Township

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Township's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 1,713,700	\$ 721,544	\$ 204,371	\$ 2,639,615
Investments	<u>3,306,532</u>	<u>-</u>	<u>-</u>	<u>3,306,532</u>
Total	<u>\$ 5,020,232</u>	<u>\$ 721,544</u>	<u>\$ 204,371</u>	<u>\$ 5,946,147</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 4,302,237
Bank investment pools	1,063,151
Interlocal agreement (MBIA CLASS)	580,059
Petty cash or cash on hand	<u>700</u>
Total	<u>\$ 5,946,147</u>

Note 3 - Deposits and Investments (Continued)

Deposits

The bank balance of the Township's deposits is \$4,356,258, of which \$700,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Township's investments during the year consisted solely of bank investment pools and interlocal agreement pools (MBIA-CLASS). Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares. The Township believes that the investments in these funds comply with the investment authority noted above.

Salem Township

Notes to Financial Statements March 31, 2005

Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2004	Additions	Disposals and Adjustments	Balance March 31, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 1,579,700	\$ -	\$ -	\$ 1,579,700
Capital assets being depreciated:				
Buildings and improvements	68,700	16,200	-	84,900
Fire equipment	873,246	36,830	-	910,076
Office furnishings and equipment	44,748	-	-	44,748
Subtotal	986,694	53,030	-	1,039,724
Accumulated depreciation:				
Buildings and improvements	(28,690)	(3,437)		(32,127)
Fire equipment	(410,552)	(45,945)	-	(456,497)
Office furnishings and equipment	(33,126)	(2,369)	-	(35,495)
Subtotal	(472,368)	(51,751)	-	(524,119)
Net capital assets being depreciated	514,326	1,279	-	515,605
Net capital assets	<u>\$ 2,094,026</u>	<u>\$ 1,279</u>	<u>\$ -</u>	<u>\$ 2,095,305</u>
Business-type Activities (Sewer Fund)				
Capital assets not being depreciated -				
Land	\$ 260,982	\$ -	\$ -	\$ 260,982
Capital assets being depreciated - Sewer				
buildings and systems	2,742,722	-	-	2,742,722
Accumulated depreciation - Sewer				
buildings and systems	(336,898)	(68,568)	-	(405,466)
Net capital assets being depreciated	2,405,824	(68,568)	-	2,337,256
Net capital assets	<u>\$ 2,666,806</u>	<u>\$ (68,568)</u>	<u>\$ -</u>	<u>\$ 2,598,238</u>

Salem Township

Notes to Financial Statements March 31, 2005

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 5,806
Public safety	<u>45,945</u>

Total governmental activities	<u>\$ 51,751</u>
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Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 6 - Long-term Debt - Sewer Fund

Original Construction - In May 1995, the Township, in cooperation with Washtenaw County (the "County"), approved and began construction of a sanitary sewage disposal system for individuals within the Hamlet of Salem. On May 1, 1995, the Township entered into a lease agreement with the County relating to the system. Under this agreement, the County, is responsible for construction and financing of the system through a bond program with the Michigan Municipal Bond Authority. The original lease amount of \$2,255,000 is equal to the total proceeds that may be drawn by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs.

The Township will lease the system from the County and is required to operate, maintain, repair, insure, and manage the system for the County. Ownership of the system will be transferred at no cost to the Township after the bonds have been paid in full.

Salem Township

Notes to Financial Statements March 31, 2005

Note 6 - Long-term Debt - Sewer Fund (Continued)

As of March 31, 2005, the estimated future minimum lease payments are as follows:

<u>Years Ending March 31</u>	<u>Amount</u>
2006	\$ 132,175
2007	134,869
2008	132,506
2009	135,087
2010	132,612
Remaining years	<u>1,035,387</u>
Total minimum lease payments	1,702,636
Less amount representing interest	<u>(322,636)</u>
Present value	<u><u>\$ 1,380,000</u></u>

The capital lease represents the financing of public improvements that benefited a specific district; this district is specially assessed, at least in part, for the cost of the sewer improvements. At March 31, 2005, the Township had approximately \$383,000 of special assessments receivable in the future.

2002/2003 Expansion - In May 2002, the Township entered into an agreement with the County to expand the Township's existing sewer system. Under this agreement, the County is responsible for construction and financing of the project through a bond program with the Michigan Municipal Bond Authority. The bond was issued in May 2002 for \$1,090,000. The Township has entered into a lease agreement equal to the total proceeds that will be drawn down by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs.

Salem Township

Notes to Financial Statements March 31, 2005

Note 6 - Long-term Debt - Sewer Fund (Continued)

As of March 31, 2005, the estimated future minimum lease payments are as follows:

<u>Years Ending March 31</u>	<u>Amount</u>
2006	\$ 101,200
2007	99,175
2008	97,015
2009	94,735
2010	92,365
Remaining years	<u>861,464</u>
Total minimum lease payments	1,345,954
Less amount representing interest	<u>(375,954)</u>
Present value	<u>\$ 970,000</u>

The capital lease represents the financing of public improvements that benefited a specific district; this district is specially assessed, at least in part, for the cost of the sewer improvements. At March 31, 2005, the Township had approximately \$947,000 of special assessments receivable in the future.

Note 7 - Landfill Agreement

In 1991, the Township entered into a host community agreement and lease with Onyx North America - Arbor Hills Landfill (Onyx), previously known as Browning-Ferris Industries (BFI) of Southeastern Michigan, Inc., covering a Township-owned landfill site. The Township receives quarterly lease renewal payments in return for leasing the site to Onyx for landfill operations. For the year ended March 31, 2005, host revenue was \$417,936.

During 2002, Gas Recovery Systems Inc. (GRS) revised the calculation used in determining the gas royalties to be paid to the Township. In response to the reduction of royalties, the Township filed a complaint seeking judgment against GRS for breach of the host community agreement. During the current year, the dispute was settled in the Township's favor. During the year, the Township received approximately \$2.2 million as settlement.

Note 7 - Landfill Agreement (Continued)

In June 1996, the Township also entered into a host community agreement with Onyx covering a composting site. Total revenue for the year ended March 31, 2005 relating to this agreement was \$45,828.

State and federal laws and regulations require that a final cover be placed on the landfill site when it stops accepting waste and that certain maintenance and monitoring functions be performed at the site for 30 years after closure. Any costs associated with closure or postclosure care are the responsibility of Onyx. The Township is responsible for closure and postclosure care costs only in the event that Onyx and its parent are unable to provide for these costs. The financial statements do not reflect any adjustments that might be necessary in the event Onyx is unable to provide for closure and postclosure care costs.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League Liability and Property pool program for claims relating to property, torts, errors and omissions, and workers' compensation and the Michigan Townships Participating Plan for claims relating to firefighter disability and life claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Note 9 - Defined Contribution Pension Plan

The Township provides pension benefits to certain employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment (or other date). As established by the adoption agreement, the Township contributes 10 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account.

The Township's total payroll during the current year was \$466,429. The current year contribution was calculated based on covered payroll of approximately \$120,000, resulting in an employer contribution of \$12,122.

Note 10 - New Reporting Model

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Salem Township has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements to focus on the major funds
- Capital assets at April 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by \$447,171 to reflect the historical cost of the Township's capital assets at that date.

Required Supplemental Information

Salem Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Licenses and permits	\$ 143,000	\$ 107,500	\$ 110,364	\$ 2,864
State-shared revenues and grants	375,000	375,000	376,799	1,799
Landfill/Host community fees:				
Host fees	403,000	403,000	417,936	14,936
Gas royalties	-	2,100,000	2,207,777	107,777
Compost host fees	40,000	40,000	45,828	5,828
Total landfill/host community fees	443,000	2,543,000	2,671,541	128,541
Local sources	21,400	21,400	23,472	2,072
Interest income	30,000	30,000	35,598	5,598
Other revenue:				
Refunds and rebates	-	-	1,996	1,996
Charges for services	7,550	6,550	9,158	2,608
Cable television franchise	31,500	31,500	38,332	6,832
Other	21,722	21,722	28,141	6,419
Total other revenue	60,772	59,772	77,627	17,855
Total revenue	1,073,172	3,136,672	3,295,401	158,729
Expenditures				
General government:				
Township board:				
Salaries	21,945	21,945	22,502	(557)
Payroll taxes	1,679	1,679	1,783	(104)
Other	850	1,850	984	866
Total Township board	24,474	25,474	25,269	205
Supervisor:				
Salaries	29,051	29,051	29,051	-
Administrative assistant	33,894	33,894	33,374	520
Payroll taxes and benefits	4,815	4,815	4,789	26
Supplies and others	1,700	3,200	4,156	(956)
Total supervisor	69,460	70,960	71,370	(410)
Clerk:				
Salaries	29,051	29,051	28,894	157
Deputy clerk	22,550	23,550	23,412	138
Severance	-	3,750	4,915	(1,165)
Payroll taxes and benefits	3,940	3,940	4,090	(150)
Printing and supplies	100	2,100	83	2,017
Equipment	500	500	-	500
Other	3,550	5,300	4,361	939
Total clerk	59,691	68,191	65,755	2,436

Salem Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
General government (Continued):				
Treasurer:				
Salary	\$ 29,051	\$ 29,051	\$ 29,051	\$ -
Deputy treasurer	22,550	22,550	11,928	10,622
Payroll taxes and benefits	3,947	3,947	3,142	805
Tax statements	4,200	4,200	4,002	198
Equipment	500	500	325	175
Other	950	950	1,125	(175)
Total treasurer	61,198	61,198	49,573	11,625
Township hall and office:				
Salaries	4,500	4,500	2,968	1,532
Payroll taxes	345	345	156	189
Utilities	30,000	30,000	29,235	765
Equipment	2,500	2,500	3,295	(795)
Maintenance	34,865	38,109	37,967	142
Printing, postage, and supplies	28,000	28,000	24,071	3,929
Other	890	890	287	603
Total Township hall and office	101,100	104,344	97,979	6,365
Other:				
Election	13,125	22,125	22,326	(201)
Assessing	43,700	43,700	40,362	3,338
Zoning	55,037	55,037	52,491	2,546
Community development	108,032	125,032	117,151	7,881
Fringe benefits and insurance	48,500	58,500	71,800	(13,300)
Board of review	1,007	1,007	1,167	(160)
Board of appeals	1,560	1,560	312	1,248
Planning commission	29,289	29,289	23,751	5,538
Accounting and audit	18,000	24,000	23,950	50
Legal services	125,000	125,000	54,871	70,129
Other	8,700	8,856	7,881	975
Total other	451,950	494,106	416,062	78,044
Total general government	767,873	824,273	726,008	98,265
Public safety:				
Fire department	243,920	243,920	233,248	10,672
Police department	84,410	84,410	76,761	7,649
Total public safety	328,330	328,330	310,009	18,321

Salem Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued):				
Public works - Highways and streets	\$ 46,000	\$ 46,000	\$ 44,277	\$ 1,723
Capital improvements	-	41,000	37,779	3,221
Total expenditures	<u>1,142,203</u>	<u>1,239,603</u>	<u>1,118,073</u>	<u>121,530</u>
Excess of Revenue Over (Under) Expenditures	(69,031)	1,897,069	2,177,328	280,259
Fund Balances - Beginning of year	<u>3,306,851</u>	<u>3,097,049</u>	<u>3,097,049</u>	-
Fund Balances - End of year	<u>\$ 3,237,820</u>	<u>\$ 4,994,118</u>	<u>\$ 5,274,377</u>	<u>\$ 280,259</u>

Salem Township

Note to Required Supplemental Information March 31, 2005

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end. The Township's fiscal year begins on April 1 and ends March 31. During the months of January and February, department heads are asked to provide spending requirements for the upcoming fiscal year. The clerk's department provides updated revenue and expenditure reports to enable the department heads to determine how well their expenditures are relative to the current proposed budget.

The supervisor is responsible for compiling the budget information and presenting it to the board. The treasurer assists in this process by providing revenue projections. A preliminary budget is presented to the board in February for review and input from the trustees. A public budget hearing, which is advertised in the local designated newspaper, is held in March to provide a forum for the citizens to make comments and provide their input. Subsequently, the board takes a formal vote to adopt the budget by cost centers or departments via the General Appropriations Act.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have significant expenditure budget variances.

Other Supplemental Information

Salem Township

Fiduciary Funds Statement of Assets and Liabilities March 31, 2005

	<u>Tax Collection</u>	<u>Escrow</u>	<u>Total</u>
Assets - Cash and cash equivalents	<u>\$ 25,404</u>	<u>\$ 178,967</u>	<u>\$ 204,371</u>
Liabilities			
Due to other governmental units	\$ 25,404	\$ -	\$ 25,404
Refundable deposits	<u>-</u>	<u>178,967</u>	<u>178,967</u>
 Total liabilities	 <u>\$ 25,404</u>	 <u>\$ 178,967</u>	 <u>\$ 204,371</u>

September 7, 2005

To the Members of the Township
Board of Trustees, Salem Township
P.O. Box 75002
9600 Six Mile Road
Salem, MI 48175

Dear Board Members:

Reportable Conditions

In planning and performing our audit of the financial statements of Salem Township for the year ended March 31, 2005, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters noted are only those that came to our attention, and had our procedures in internal control related matters been more extensive, other matters may have been noted.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

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During the course of our audit, we noted that monthly reconciliations were not being performed, including:

- Bank accounts were not reconciled to the general ledger.
- The sewer accounts receivable listing was not reconciled to the general ledger.

During the year there was a change in personnel. The new personnel have gone to great strides to reconcile the bank accounts through the end of the audit year. The bank accounts are currently reconciled through August 31, 2005. We also wish to reinforce the discussion related to 'journal entry dates'. Journal entries to correct errors should reflect the time period in which the correction occurred rather than when the error occurred.

Accounting Function

In previous years we have recommended the need to seek outside accounting assistance in order to assist with timely reconciliations. During this past audit, it became apparent that the current Township staff have the ability to accomplish the accounting function and, in fact, are virtually current with reconciliations. At this point, we no longer feel that an outside service is necessary to assist with normal reconciliations. It may make sense for an experienced accountant to periodically spend time with the Deputy Clerk to assist in training the Deputy along other municipal accounting and budgeting lines. We congratulate you for the progress made to date related to reconciliations. Becoming more self sufficient as a Township will provide much more timely financial information and will reduce your accounting service fees charged in connection with your audit.

Construction Code Fees

The township oversees building construction, in according with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services and State law requires that this revenue be used only towards the payment of construction code costs, which can include an allocation of overhead costs. For the year ended March 31, 2005, the direct and indirect costs exceeded the revenues collected by approximately \$31,000 which created a cumulative shortfall related to construction code activity of approximately \$11,500. The Township should evaluate the fee structure for construction code fees to ensure that the other general fund revenues do not subsidize the construction activity.

We would like to thank the Township and all those involved with the audit process for their assistance. If any questions arise upon reviewing the financial statements or on the above comments, we would be happy to discuss them with you. Thank you for the continued opportunity to be of service.


To the Members of the Township
Board of Trustees
Salem Township

3

September 7, 2005

Very truly yours,

Plante & Moran, PLLC



Michael J. Swartz

MJS:bb

plante

moran